Testimony on the Housing Affordability for America Act of 2002

before the

House Committee on Financial Services
Subcommittee on Housing and Community Opportunity

by

Katherine Hadley,
Commissioner,
Minnesota Housing Finance Agency

on behalf of

The National Council of State Housing Agencies

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Chairwoman Roukema, Representative Frank, and members of the Subcommittee, I am Kit Hadley, Commissioner of the Minnesota Housing Finance Agency.

I am testifying today on behalf of the National Council of State Housing Agencies. NCSHA represents the Housing Finance Agencies (HFAs) of the 50 states, the District of Columbia, the Commonwealth of Puerto Rico, and the U.S. Virgin Islands.

State HFAs allocate the Low Income Housing Tax Credit (Housing Credit) and issue tax-exempt private activity bonds to finance apartments for low income renters and low-cost mortgages for lower income first-time homebuyers in nearly every state. They administer HOME funding in 40 states to provide both homeownership and rental housing assistance for low income families.

First, I want to thank you, Chairwoman Roukema, Representative Frank, and the many other members of the Subcommittee who have cosponsored H.R. 951, the Housing Bond and Credit Modernization and Fairness Act of 2001. This bill provides urgently needed changes to Mortgage Revenue Bonds (MRBs) and the Housing Credit, two of the most effective federal housing programs.

With your support, Congress significantly expanded the annual volume caps on MRBs and the Housing Credit more than a year ago. Yet, many families qualified for MRB and Housing Credit help still do not receive it. Three obsolete statutory provisions prevent it:

- the MRB Ten-Year Rule, which forces states to use payments on MRB mortgages to retire MRBs outstanding more than ten years, rather than make new mortgages for lower income, first-time homebuyers;

- nearly decade-old MRB home purchase price limits, which shut eligible MRB borrowers out of the program because they cannot find homes priced low enough to buy; and

- rigid Housing Credit income eligibility rules that make development infeasible in very low income, predominantly rural, communities.

If enacted, H.R. 951 would solve these problems by repealing the Ten-Year Rule, reforming the MRB purchase price limit, and giving states the flexibility to adjust Housing Credit income rules. It would prevent the loss of billions of dollars annually in MRB mortgage money—$2.3 billion this year alone—and open the door to affordable homeownership and rental housing opportunities to tens of thousands of lower income families.

If you have not cosponsored H.R. 951, we urge you to join the 284 House members who have. We ask all of you to press your leadership and Ways and Means Committee colleagues to include H.R. 951 in a tax bill this year.

Chairwoman Roukema, NCSHA and the State HFAs applaud you for shining light on this country's staggering affordable housing needs through your Subcommittee hearings last year. We commend you for introducing H.R. 3995, the Housing Affordability for America Act of 2002, to respond to these needs.

H.R. 3995 recognizes two essential facts. First, the federal government must commit substantially more resources to the production of affordable rental housing if we are to have any hope of ending our country's affordable housing crisis. Second, the serious scarcity of federal housing resources requires us to streamline, integrate, and coordinate the delivery and use of the precious resources we have.

Authorize State-Administered Rental Production Grants

Your Subcommittee hearings a year ago revealed that America's affordable housing crisis extends from the very poor to the solidly middle class. Alarmingly, this crisis continues to deepen.

According to Harvard University's Joint Center for Housing Studies' 2001 report, one out of every eight American families have critical housing needs, meaning they pay more than 50 percent of their incomes for housing. That's 14 million families, both homeowners and renters.

Yet, indisputably, those families hardest hit are those with the least income. Of those 14 million families with critical housing needs, 80 percent are very low income, earning 50 percent of their area's median income or less. Nearly 60 percent have extremely low incomes, 30 percent of AMI or less.

HUD's 2001 *Report on Worst Case Housing Needs in 1999* reports that between 1997 and 1999, the number of rental units affordable to extremely low income families dropped by 750,000 and the total number of units affordable to very low income families fell by 1.14 million. HUD found that in every region of the country, rental housing affordable to extremely low income renters was in shorter supply than housing affordable to other income groups.

NCSHA commends the Chair for recognizing the urgent needs of very low and extremely low income families and proposing new resources for producing rental housing affordable to them. However, we do not believe that the HOME program is the best vehicle for delivering these resources.

Whether funded through Section 8 recaptures, or newly appropriated money as NCSHA recommends, any new rental production funds will almost certainly be insufficient to meet the enormous need. Therefore, it is essential that whatever limited funds Congress makes available be delivered through an established, integrated system that will facilitate their coordination with other resources and target them to where they are most urgently needed. This system is already in place at the state level.

NCSHA recommends that any new rental production funds be administered by the states for at least four compelling reasons:

First, only statewide government is in a position to judge and allocate the assistance to the most pressing needs, wherever they exist in each state, in amounts sufficient to make a difference. Housing needs in cities, suburbs, and rural areas do not often exist in isolation from one another. Moreover, housing needs, job and commercial development, transportation burdens, health care availability, human services demands, and other neighborhood development requirements flood across city and county political boundaries, sometimes across broad areas of a state. These interrelated needs cannot be addressed as fairly, effectively, or efficiently by a proliferation of individual subdivisions acting alone as by the kind of overall statewide planning and administration in the state-administered Housing Credit program.

The states are uniquely positioned. They are close to real local issues and housing needs, but have enough perspective to bring a state and regional focus to problems that cannot be solved within individual municipal boundaries. States are in an unparalleled position to ensure that funding is applied where it is most needed and is integrated with other public investments in our physical, economic, and human infrastructure.

States have the ability to bring together state agencies and resources in ways the federal government and local communities cannot. For example, state HFAs have partnered with welfare agencies to use Temporary Assistance to Needy Families (TANF) funds to provide housing assistance to families attempting to make the transition for welfare to work. They have teamed up with state health and human services agencies to obtain Medicaid waivers to cover the cost of services in HFA-financed assisted living. They work with state departments of mental health and retardation to provide quality housing linked to supportive services for people with mental illness and retardation.

State HFAs also successfully partner with local governments, nonprofits, the private sector, resident and community groups, and service providers to address the diverse housing challenges they confront. Through comprehensive and coordinated state, regional, and local planning, state HFAs can assure that housing is developed where it is most needed and in sustainable communities with access to jobs, transportation, schools, health care, and other services. This is critically important because providing affordable housing today means much more than providing shelter. Low income families and those with special needs require services and proximity to economic opportunity to have the best possible chance to achieve self-sufficiency and a stake in their communities.

Second, the funds potentially available for any new production program under any reasonably anticipated budget scenario will be too scarce to be divisible among more than the 50 states, if relative needs in all parts of each state are to be considered and prioritized adequately, and the funds marshaled to meet them. Dividing into more than 50 parts whatever additional housing funding Congress provides would dilute those funds in many places to amounts too little to be effective or meaningful.

The $1 billion HOME provides local governments annually are distributed under an entitlement formula to 594 communities. This fractionalization makes HOME very popular among a broad base of local governments, but distributes funds without regard to consideration of or prioritization among statewide or even regional needs and in shares frequently too small to address whatever needs exist even in the county or city receiving them.

Congress was well aware of the Community Development Block Grant (CDBG) entitlement jurisdiction funding formula when it created the Housing Credit, the greatest single federal producer of low income rental housing. Instead of following such a formula, Congress limited Housing Credit administration to the state level, the only possible way to bring always-too-scarce federal assistance to bear in the most comprehensive, coordinated, cost-effective fashion on the most pressing multifamily production problems, wherever they exist in each state.

We recognize that the dual state-local administration of HOME and CDBG is based on political compromises struck years ago. Though we do not propose overturning those compromises, fractionalizing new housing assistance today into hundreds of local entitlements, without regard to the overall needs of a state, cannot be justified, particularly in light of the decade and a half successful experience with statewide Housing Credit administration.

Third, only state government has the capacity in every state to administer sophisticated multifamily financing. State housing agencies possess statewide focus, sophisticated finance, underwriting, and asset management capacity, and a multi-decade record of responsibility, effectiveness, accountability, and success in administering tens of billions of dollars of housing assistance. They are investment grade rated.

In fact, states are the only point in the entire federal system where all federal and state housing resources—Housing Bonds, Housing Credits, HOME, Federal Home Loan Bank advances, FHA insurance, and state-provided funds—can be accessed in one place and brought to bear on housing needs.

Fourth, federal oversight capability can be more effectively concentrated on 50 entities than in programs spread among hundreds of states and municipalities, a point which HUD itself recently recognized in limiting to the states the delegation of contract administration on its 850,000 unit Section 8 project-based portfolio.

For all these reasons, we urge you to authorize state-administered production grants to leverage existing state-administered resources, including the Housing Bonds and the Housing Credit, to reach very low and extremely low income families. This program would build on the success of Housing Bonds and the Credit, utilize the existing, proven state delivery system, and be integrated with existing state housing plans and funding systems. It would not require the building of a whole new program infrastructure, which we understand the Chair seeks to avoid.

We propose that new rental production funds be allocated by State HFAs, subject to a state allocation plan, modeled on and coordinated with the Housing Credit qualified allocation plan. The plan, developed with extensive pubic input, would identify the state's priority rental housing needs and strategies for using the funds to address them.

This approach will only work, however, if states are given the flexibility they need to tailor innovative solutions to their rental housing problems. HUD regulation must be limited to that which is necessary to assure nondiscrimination and accountability for the use of funds to achieve the goals Congress sets.

States should be empowered to use funds for a wide range of activities, including tenant and project-based assistance, new construction, rehabilitation, and preservation. Funds should not be encumbered with program set-asides.

Finally, it is essential that any income, rent, or other rules be compatible with the Housing Credit and other federal housing programs, for the combination of this new funding with them will almost always be necessary to reach extremely low income families.

Make HOME a True Block Grant

The HOME Investment Partnerships (HOME) program is one of the most successful federal programs for producing and preserving affordable housing. It works better than most HUD programs because Congress designed it to allow states and localities, not HUD, to decide how to use HOME funds to best respond to their priority housing needs.

States have done this with dramatic results. State HOME funds have helped finance the production, rehabilitation, and acquisition of over 250,000 affordable homes and apartments. In Minnesota, we have used state HOME funds to rehabilitate 5,500 apartments and single family houses.

Still, HOME has not reached its full potential. Unnecessary, counterproductive federal prescription and inadequate funding have stymied its success.

Since its creation a decade ago, HOME has been plagued with statutory and regulatory rules that exalt process over product. These requirements generate needless delays, inject unnecessary inflexibility, raise administrative and compliance costs, and frustrate state and local government and private sector efforts to coordinate HOME with other housing resources.

Here are just a couple of examples. Recently, HUD engaged in a fruitless multi-year dispute with a state on the Canadian border about whether garages are appropriate in HOME-assisted housing. HUD argued for months with another state over its decision to invest all of its HOME funds in multifamily rental housing, though nothing in the HOME statute prevents this.

Over-regulation also has led to negative selection in program administration. Given a choice, for example, between single and multifamily rehabilitation, most HOME agencies emphasize single-family, not because the need for it is more urgent, but because the regulations needlessly make multifamily rehabilitation more cumbersome and costly.

H.R. 3995 strips away some of HOME's unnecessary and burdensome requirements and provides HOME administrators increased flexibility in their use of HOME funds. In eliminating the Fair Market Rent (FMR) from HOME rent determinations and allowing administrators to use the greater of the state or area median income in calculating maximum HOME rents, for example, the bill makes HOME rental development feasible in very low income communities. H.R. 3995 also assures that HOME developments remain affordable and in quality condition over the long-term by allowing HOME administrators to charge fees to cover their compliance monitoring costs.

These and the other HOME changes the bill proposes are important steps toward making HOME a true block grant. We encourage you, though, to seize this opportunity to go further. We urge you to reduce HOME statutory and regulatory requirements to those rules necessary to effectively protect the federal government's interest in program integrity, quality results, and accountability, while leaving the states empowered to make the program judgments Congress intended.

At a minimum, we urge you to allow HOME rent, eligibility, and other program rules to conform to the Housing Credit rules when the two programs are used together, so their combination, which is often necessary to reach very low income families, is easier to achieve. In addition, we suggest further simplification of HOME's CHDO requirements and program income rules, and removing rules prohibiting refinancing without rehabilitation.

Congress also should provide substantially more funding for HOME. Congress authorized HOME at $2 billion when it created the program in 1990, because it believed that amount was necessary for HOME to accomplish its affordable housing goals. Accounting for inflation, Congress would have to fund HOME at $2.9 billion in FY 2003 just to achieve that purchasing power today. NCSHA urges the Subcommittee to reauthorize HOME at least at $2.9 billion and encourage appropriators to fund HOME at this level in FY 2003.

Thrifty Production Vouchers Are Another Important Tool for Reaching Extremely Low Income Families

NCSHA believes the bill's thrifty production vouchers (TPVs) are a very promising tool for helping to house extremely low income families. Production subsidies alone will often not be enough to support housing for extremely low income families, as their incomes are often insufficient to pay rent adequate to cover operating expenses.

If TPVs are to succeed, though, they must be closely coordinated with production subsidies. For this reason, we recommend that at least some percentage of TPVs be allocated to the states to use with the Housing Credit, Housing Bonds, and any new rental production grants Congress may make available.

We encourage the Subcommittee to provide TPV administrators the maximum flexibility to use them where they are needed. We urge you to establish broad goals for the program, such as mixed income development, but not prescribe how administrators must achieve those goals, such as by limiting the number of units they can assist in a particular development.

A rent limit linked to some percentage of the fair market rents (FMRs) should be examined closely. In many markets, particularly rural areas, the FMR is too low to support operating expenses. Some percentage of the FMR would only compound the problem. In addition, FMRs in many areas do not reflect the rents required to sustain quality housing because they are based on too large an area to reflect local markets or they are based on rents for poorer quality existing housing that does not meet modern standards.

Thank you for the opportunity to comment on the housing production proposals contained in the Housing Affordability for America Act of 2002. We are grateful to you for putting forward this important legislation and look forward to working with you as you move it forward.